

104TH CONGRESS
1ST SESSION

H. R. 1690

To amend the Internal Revenue Code of 1986 to simplify certain rules relating to the taxation of United States business operating abroad, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MAY 24, 1995

Mr. LEVIN (for himself and Mr. HOUGHTON) introduced the following bill;
which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to simplify certain rules relating to the taxation of United States business operating abroad, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “International Tax Simplification and Reform Act of
6 1995”.

7 (b) AMENDMENT OF 1986 CODE.—Except as other-
8 wise expressly provided, whenever in this Act an amend-
9 ment or repeal is expressed in terms of an amendment

1 to, or repeal of, a section or other provision, the reference
2 shall be considered to be made to a section or other provi-
3 sion of the Internal Revenue Code of 1986.

4 **SEC. 2. INDIRECT FOREIGN TAX CREDIT ALLOWED FOR**
5 **CERTAIN LOWER TIER COMPANIES.**

6 (a) SECTION 902 CREDIT.—

7 (1) IN GENERAL.—Subsection (b) of section
8 902 (relating to deemed taxes increased in case of
9 certain 2nd and 3rd tier foreign corporations) is
10 amended to read as follows:

11 “(b) DEEMED TAXES INCREASED IN CASE OF CER-
12 TAIN LOWER TIER CORPORATIONS.—

13 “(1) IN GENERAL.—If—

14 “(A) any foreign corporation is a member
15 of a qualified group, and

16 “(B) such foreign corporation owns 10 per-
17 cent or more of the voting stock of another
18 member of such group from which it receives
19 dividends in any taxable year,

20 such foreign corporation shall be deemed to have
21 paid the same proportion of such other member’s
22 post-1986 foreign income taxes as would be deter-
23 mined under subsection (a) if such foreign corpora-
24 tion were a domestic corporation.

1 “(2) QUALIFIED GROUP.—For purposes of
2 paragraph (1), the term ‘qualified group’ means—

3 “(A) the foreign corporation described in
4 subsection (a), and

5 “(B) any other foreign corporation if—

6 “(i) the domestic corporation owns at
7 least 5 percent of the voting stock of such
8 other foreign corporation indirectly
9 through a chain of foreign corporations
10 connected through stock ownership of at
11 least 10 percent of their voting stock,

12 “(ii) the foreign corporation described
13 in subsection (a) is the first tier corpora-
14 tion in such chain, and

15 “(iii) such other corporation is not
16 below the sixth tier in such chain.

17 The term ‘qualified group’ shall not include any for-
18 eign corporation below the third tier in the chain re-
19 ferred to in clause (i) unless such foreign corpora-
20 tion is a controlled foreign corporation (as defined in
21 section 957) and the domestic corporation is a Unit-
22 ed States shareholder (as defined in section 951(b))
23 in such foreign corporation. Paragraph (1) shall
24 apply to those taxes paid by a member of the quali-
25 fied group below the third tier only with respect to

1 periods during which it was a controlled foreign cor-
2 poration.”

3 (2) CONFORMING AMENDMENTS.—

4 (A) Subparagraph (B) of section 902(c)(3)
5 is amended by adding “or” at the end of clause
6 (i) and by striking clauses (ii) and (iii) and in-
7 serting the following new clause:

8 “(ii) the requirements of subsection
9 (b)(2) are met with respect to such foreign
10 corporation.”

11 (B) Subparagraph (B) of section 902(c)(4)
12 is amended by striking “3rd foreign corpora-
13 tion” and inserting “sixth tier foreign corpora-
14 tion”.

15 (C) The heading for paragraph (3) of sec-
16 tion 902(c) is amended by striking “WHERE DO-
17 MESTIC CORPORATION ACQUIRES 10 PERCENT
18 OF FOREIGN CORPORATION” and inserting
19 “WHERE FOREIGN CORPORATION FIRST QUALI-
20 FIES”.

21 (D) Paragraph (3) of section 902(c) is
22 amended by striking “ownership” each place it
23 appears.

1 (b) SECTION 960 CREDIT.—Paragraph (1) of section
2 960(a) (relating to special rules for foreign tax credits)
3 is amended to read as follows:

4 “(1) DEEMED PAID CREDIT.—For purposes of
5 subpart A of this part, if there is included under
6 section 951(a) in the gross income of a domestic cor-
7 poration any amount attributable to earnings and
8 profits of a foreign corporation which is a member
9 of a qualified group (as defined in section 902(b))
10 with respect to the domestic corporation, then, ex-
11 cept to the extent provided in regulations, section
12 902 shall be applied as if the amount so included
13 were a dividend paid by such foreign corporation
14 (determined by applying section 902(c) in accord-
15 ance with section 904(d)(3)(B)).”

16 (c) EFFECTIVE DATE.—

17 (1) IN GENERAL.—The amendments made by
18 this section shall apply to taxes of foreign corpora-
19 tions for taxable years of such corporations begin-
20 ning after the date of enactment of this Act.

21 (2) SPECIAL RULE.—In the case of any chain
22 of foreign corporations described in clauses (i) and
23 (ii) of section 902(b)(2)(B) of the Internal Revenue
24 Code of 1986 (as amended by this section), no liq-
25 uidation, reorganization, or similar transaction in a

1 taxable year beginning after the date of the enact-
2 ment of this Act shall have the effect of permitting
3 taxes to be taken into account under section 902 of
4 the Internal Revenue Code of 1986 which could not
5 have been taken into account under such section but
6 for such transaction.

7 **SEC. 3. EXCHANGE RATE USED IN TRANSLATING FOREIGN**
8 **TAXES.**

9 (a) ACCRUED TAXES TRANSLATED BY USING AVER-
10 AGE RATE FOR YEAR TO WHICH TAXES RELATE.—

11 (1) IN GENERAL.—Subsection (a) of section
12 986 (relating to translation of foreign taxes) is
13 amended to read as follows:

14 “(a) FOREIGN INCOME TAXES.—

15 “(1) TRANSLATION OF ACCRUED TAXES.—

16 “(A) IN GENERAL.—For purposes of deter-
17 mining the amount of the foreign tax credit, in
18 the case of a taxpayer who takes foreign income
19 taxes into account when accrued, the amount of
20 any foreign income taxes (and any adjustment
21 thereto) shall be translated into dollars by using
22 the average exchange rate for the taxable year
23 to which such taxes relate.

24 “(B) EXCEPTION FOR TAXES NOT PAID
25 WITHIN FOLLOWING 2 YEARS.—

1 “(i) Subparagraph (A) shall not apply
2 to any foreign income taxes paid after the
3 date 2 years after the close of the taxable
4 year to which such taxes relate.

5 “(ii) Subparagraph (A) shall not
6 apply to taxes paid before the beginning of
7 the taxable year to which such taxes relate.

8 “(C) EXCEPTION FOR INFLATIONARY CUR-
9 RENCIES.—To the extent provided in regula-
10 tions, subparagraph (A) shall not apply to any
11 foreign income taxes the liability for which is
12 denominated in any currency determined to be
13 an inflationary currency under such regulations.

14 “(D) CROSS REFERENCE.—

“For adjustments where tax is not paid within 2
years, see section 905(c).

15 “(2) TRANSLATION OF TAXES TO WHICH PARA-
16 GRAPH (1) DOES NOT APPLY.—For purposes of de-
17 termining the amount of the foreign tax credit, in
18 the case of any foreign income taxes to which sub-
19 paragraph (A) of paragraph (1) does not apply—

20 “(A) such taxes shall be translated into
21 dollars using the exchange rates as of the time
22 such taxes were paid to the foreign country or
23 possession of the United States, and

“(B) any adjustment to the amount of such taxes shall be translated into dollars using—

“(i) except as provided in clause (ii), the exchange rate as of the time when such adjustment is paid to the foreign country or possession, or

“(ii) in the case of any refund or credit of foreign income taxes, using the exchange rate as of the time of the original payment of such foreign income taxes.

“(3) FOREIGN INCOME TAXES.—For purposes of this subsection, the term ‘foreign income taxes’ means any income, war profits, or excess profits taxes paid or accrued to any foreign country or to any possession of the United States.”

(2) ADJUSTMENT WHEN NOT PAID WITHIN 2 YEARS AFTER YEAR TO WHICH TAXES RELATE.— Subsection (c) of section 905 is amended to read as follows:

“(c) ADJUSTMENTS TO ACCRUED TAXES.—

“(1) IN GENERAL.—If—

“(A) accrued taxes when paid differ from the amounts claimed as credits by the taxpayer,

1 “(B) accrued taxes are not paid before the
2 date 2 years after the close of the taxable year
3 to which such taxes relate, or

4 “(C) any tax paid is refunded in whole or
5 in part,

6 the taxpayer shall notify the Secretary, who shall re-
7 determine the amount of the tax for the year or
8 years affected.

9 “(2) SPECIAL RULE FOR TAXES NOT PAID
10 WITHIN 2 YEARS.—In making the redetermination
11 under paragraph (1), no credit shall be allowed for
12 accrued taxes not paid before the date referred to in
13 subparagraph (B) of paragraph (1). Any such taxes
14 if subsequently paid shall be taken into account for
15 the taxable year in which paid and no redetermina-
16 tion under this section shall be made on account of
17 such payment.

18 “(3) ADJUSTMENTS.—The amount of tax due
19 on any redetermination under paragraph (1) (if any)
20 shall be paid by the taxpayer on notice and demand
21 by the Secretary, and the amount of tax overpaid (if
22 any) shall be credited or refunded to the taxpayer in
23 accordance with subchapter B of chapter 66 (section
24 6511 et seq.).

1 “(4) BOND REQUIREMENTS.—In the case of
2 any tax accrued but not paid, the Secretary, as a
3 condition precedent to the allowance of the credit
4 provided in this subpart, may require the taxpayer
5 to give a bond, with sureties satisfactory to and ap-
6 proved by the Secretary, in such sum as the Sec-
7 retary may require, conditioned on the payment by
8 the taxpayer of any amount of tax found due on any
9 such redetermination. Any such bond shall contain
10 such further conditions as the Secretary may re-
11 quire.

12 “(5) OTHER SPECIAL RULES.—In any redeter-
13 mination under paragraph (1) by the Secretary of
14 the amount of tax due from the taxpayer for the
15 year or years affected by a refund, the amount of
16 the taxes refunded for which credit has been allowed
17 under this section shall be reduced by the amount of
18 any tax described in section 901 imposed by the for-
19 eign country or possession of the United States with
20 respect to such refund; but no credit under this sub-
21 part, or deduction under section 164, shall be al-
22 lowed for any taxable year with respect to any such
23 tax imposed on the refund. No interest shall be as-
24 sessed or collected on any amount of tax due on any
25 redetermination by the Secretary, resulting from a

1 refund to the taxpayer, for any period before the re-
2 ceipt of such refund, except to the extent interest
3 was paid by the foreign country or possession of the
4 United States on such refund for such period.”

5 (b) AUTHORITY TO USE AVERAGE RATES.—

6 (1) IN GENERAL.—Subsection (a) of section
7 986 (as amended by subsection (a)) is amended by
8 redesignating paragraph (3) as paragraph (4) and
9 inserting after paragraph (2) the following new
10 paragraph:

11 “(3) AUTHORITY TO PERMIT USE OF AVERAGE
12 RATES.—To the extent prescribed in regulations, the
13 average exchange rate for the period (specified in
14 such regulations) during which the taxes or adjust-
15 ment is paid may be used instead of the exchange
16 rate as of the time of such payment.”

17 (2) DETERMINATION OF AVERAGE RATES.—
18 Subsection (c) of section 989 is amended by striking
19 “and” at the end of paragraph (4), by striking the
20 period at the end of paragraph (5) and inserting “,
21 and”, and by adding at the end thereof the following
22 new paragraph:

23 “(6) setting forth procedures for determining
24 the average exchange rate for any period.”

1 (3) CONFORMING AMENDMENTS.—Subsection
2 (b) of section 989 is amended by striking “weight-
3 ed” each place it appears.

4 (c) EFFECTIVE DATES.—

5 (1) IN GENERAL.—The amendments made by
6 subsections (a)(1) and (b) shall apply to taxes paid
7 or accrued in taxable years beginning after Decem-
8 ber 31, 1995.

9 (2) SUBSECTION (a)(2).—The amendment made
10 by subsection (a)(2) shall apply to taxes which relate
11 to taxable years beginning after December 31, 1995.

12 **SEC. 4. LIMITED APPLICATION OF UNIFORM CAPITALIZA-**
13 **TION RULES TO FOREIGN PERSONS.**

14 (a) IN GENERAL.—Section 263A(c) (relating to ex-
15 ceptions) is amended by adding at the end thereof the fol-
16 lowing new paragraph:

17 “(7) FOREIGN PERSONS.—This section shall
18 apply to any taxpayer who is not a United States
19 person only for purposes of applying sections
20 871(b)(1) and 882(a)(1) and subpart F of part III
21 of subchapter N.”

22 (b) EFFECTIVE DATE.—The amendment made by
23 subsection (a) shall apply to taxable years beginning after
24 December 31, 1995.

1 **SEC. 5. EXEMPTION FOR ACTIVE FINANCING INCOME.**

2 (a) EXEMPTION FROM FOREIGN PERSONAL HOLD-
3 ING COMPANY INCOME.—Subsection (c) of section 954 is
4 amended by adding at the end the following new para-
5 graph:

6 “(4) CERTAIN INCOME DERIVED IN ACTIVE
7 CONDUCT OF TRADE OR BUSINESS.—For purposes
8 of paragraph (1), foreign personal holding company
9 income does not include income which is derived
10 from sources within the country under the laws of
11 which the controlled foreign corporation is created or
12 organized and which is—

13 “(A) income derived in the active conduct
14 of a banking, financing or similar business, but
15 only if such corporation is predominantly en-
16 gaged in such active conduct;

17 “(B) dividends, interest, and gains from
18 the sale or exchange of stock or securities de-
19 rived from the investments made by a qualify-
20 ing insurance company of its unearned pre-
21 miums or reserves ordinary and necessary for
22 the proper conduct of its insurance business,
23 and which are received from a person other
24 than a related person (within the meaning of
25 subsection (d)(3)); or

1 “(C) dividends, interest, and gains from
2 the sale or exchange of stock or securities re-
3 ceived from a person other than a related per-
4 son (within the meaning of subsection (d)(3))
5 derived from investments made by a qualifying
6 insurance company of an amount of its assets
7 equal to $\frac{1}{3}$ of its premiums earned on insur-
8 ance contracts during the taxable year (as de-
9 fined in section 832(b)(4)) which are not di-
10 rectly or indirectly attributable to the insurance
11 or reinsurance of risks of persons who are relat-
12 ed persons (within the meaning of subsection
13 (d)(3)).

14 Dividends, interest, income equivalent to interest,
15 rent, and royalties received or accrued from a relat-
16 ed person (within the meaning of subsection (d)(3)),
17 shall be subject to look-thru treatment for purposes
18 of subparagraph (A) under regulations prescribed by
19 the Secretary which are consistent with the prin-
20 ciples of section 904(d)(2). The Secretary shall pre-
21 scribe regulations which interpret subparagraph (A)
22 in accordance with the applicable principles of sec-
23 tion 904(d)(2)(C). For purposes of subparagraph
24 (C), the term ‘qualifying insurance company’ means
25 an insurance company which is subject to regulation

1 as an insurance company under the laws of its coun-
2 try of incorporation and which realizes at least 50
3 percent of its gross income (other than gross income
4 derived from investments) from premiums written on
5 risks situated within its country of incorporation.”

6 (b) EXEMPTION FROM FOREIGN BASE COMPANY
7 SERVICES INCOME.—Paragraph (2) of section 954(e) is
8 amended by striking “or” at the end of subparagraph (A),
9 by striking the period at the end of subparagraph (B) and
10 inserting “, or”, and by adding at the end the following:

11 “(C) the active conduct of a banking, fi-
12 nancing or similar business, but only if—

13 “(i) the controlled foreign corporation
14 is predominantly engaged in such active
15 conduct, and

16 “(ii) the income so derived is from
17 sources within the country under the laws
18 of which the controlled foreign corporation
19 is created or organized.

20 The Secretary shall prescribe regulations which
21 interpret subparagraph (C) in accordance with
22 the applicable principles of section
23 904(d)(2)(C).”

24 (c) EFFECTIVE DATE.—The amendments made by
25 this section shall apply to taxable years of foreign corpora-

1 tions beginning after December 31, 1995, and to taxable
2 years of United States shareholders in which or with which
3 such taxable years of foreign corporations end.

4 **SEC. 6. EXTENSION OF PERIOD TO WHICH EXCESS FOR-**
5 **EIGN TAXES MAY BE CARRIED.**

6 (a) GENERAL RULE.—Subsection (c) of section 904
7 (relating to carryback and carryover of excess tax paid)
8 is amended—

9 (1) by inserting “in the third preceding taxable
10 year,” before “in the second preceding taxable
11 year”, and

12 (2) by striking “in the first, second, third,
13 fourth, or fifth” and inserting “in any of the first
14 15”.

15 (b) EXCESS EXTRACTION TAXES.—Paragraph (1) of
16 section 907(f) is amended—

17 (1) by inserting “in the third preceding taxable
18 year,” before “in the second preceding taxable
19 year”, and

20 (2) by striking “in the first, second, third,
21 fourth, or fifth” and inserting “in any of the first
22 15”.

23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to excess foreign taxes for taxable
25 years beginning after December 31, 1995.

1 **SEC. 7. APPLICATION OF SEPARATE FOREIGN TAX CREDIT**
2 **LIMITATION FOR NONCONTROLLED SECTION**
3 **902 CORPORATIONS.**

4 (a) LOOK-THRU IN CASE OF NONCONTROLLED SEC-
5 TION 902 CORPORATIONS IF INFORMATION AVAILABLE.—
6 Section 904(d) (relating to separate application of section
7 with respect to certain categories of income) is amended
8 by redesignating paragraphs (4) and (5) as paragraphs
9 (5) and (6), respectively, and by inserting after paragraph
10 (3) the following new paragraph:

11 “(4) LOOK-THRU IN THE CASE OF CERTAIN
12 NONCONTROLLED SECTION 902 CORPORATIONS.—

13 “(A) IN GENERAL.—Dividends received or
14 accrued by a corporation from a noncontrolled
15 section 902 corporation shall be treated as not
16 described in paragraph (1)(E) if information
17 necessary to make the determinations under
18 subparagraph (B) is readily available to the
19 taxpayer.

20 “(B) ALLOCATION OF DIVIDENDS AMONG
21 CATEGORIES.—Dividends treated as provided in
22 subparagraph (A) which are paid out of the
23 earnings or profits of such corporation shall be
24 treated as income in a separate category in pro-
25 portion to the ratio of—

1 “(i) the portion of the earnings and
2 profits attributable to income in such separate category, to

3
4 “(ii) the total amount of earnings and
5 profits.

6 “(C) COORDINATION WITH OTHER PROVI-
7 SIONS.—Dividends treated as provided in sub-
8 paragraph (A) shall not be treated as dividends
9 from a noncontrolled section 902 corporation
10 for purposes of subparagraphs (C)(iii) and (D)
11 of paragraph (2).”

12 (b) DIVIDENDS FROM OTHER NONCONTROLLED
13 SECTION 902 CORPORATIONS ALL IN SAME SEPARATE
14 BASKET.—Subparagraph (E) of section 904(d)(1) is
15 amended to read as follows:

16 “(E) in the case of a corporation, except as
17 provided in paragraph (4), dividends from all
18 noncontrolled section 902 corporations,”.

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to taxable years of foreign corpora-
21 tions beginning after December 31, 1995, and to taxable
22 years of United States shareholders in which or with which
23 such taxable years of foreign corporations end.

1 **SEC. 8. COUNTRIES IN EUROPEAN UNION TREATED A SIN-**
2 **GLE COUNTRY UNDER SAME COUNTRY EX-**
3 **CEPTIONS.**

4 (a) IN GENERAL.—Subsection (d) of section 954 is
5 amended by adding at the end the following new para-
6 graph:

7 “(5) COUNTRIES IN EUROPEAN UNION TREAT-
8 ED AS 1 COUNTRY.—For purposes of this subsection
9 and subsection (e), in the case of a controlled for-
10 eign corporation which is created or organized under
11 the laws of a country included in the European
12 Union, the geographic extent of such country shall
13 be treated as including the countries in such
14 Union.”

15 (b) EFFECTIVE DATE.—The amendment made by
16 this section shall apply to taxable years of foreign corpora-
17 tions beginning after December 31, 1995, and to taxable
18 years of United States shareholders in which or with which
19 such taxable years of foreign corporations end.

20 **SEC. 9. CONTROLLED FOREIGN CORPORATIONS PASSIVE**
21 **FOREIGN INVESTMENT COMPANY.**

22 (a) IN GENERAL.—Subsection (b) of section 1297 is
23 amended by adding at the end thereof the following new
24 paragraph:

25 “(10) EXCEPTION WHERE SECTION 951 APPLIES
26 WITHOUT REGARD TO THIS SECTION.—This part

1 shall not apply to a taxpayer with respect to a cor-
2 poration if, without regard to this section—

3 “(A) such corporation is a controlled for-
4 eign corporation (as defined in section 957),
5 and

6 “(B) the taxpayer is a United States
7 shareholder (as defined in section 951(b)) with
8 respect to such corporation.”

9 (b) EFFECTIVE DATE.—The amendment made by
10 subsection (a) shall apply to taxable years of foreign cor-
11 porations beginning after December 31, 1995, and to tax-
12 able years of United States shareholders in which or with
13 which such taxable years of foreign corporations end.

14 **SEC. 10. EARNINGS AND PROFITS DEPRECIATION USED IN**
15 **ASSET BASIS IN ALLOCATING EXPENSES.**

16 (a) IN GENERAL.—Subsection (e)(2) of section 864
17 is amended by inserting at the end thereof the following
18 new sentence: “Except as otherwise provided in this sub-
19 section, for purposes of allocating and apportioning any
20 deductible expense on the basis of assets, the taxpayer
21 shall be permitted to base such allocations and appor-
22 tions on the adjusted bases of assets as determined by
23 applying the rules and principles of subsections (k) and
24 (n) of section 312.”

1 (b) EFFECTIVE DATE.—The amendment made by
2 subsection (a) shall apply to taxable years beginning after
3 December 31, 1995.

4 **SEC. 11. RECHARACTERIZATION OF OVERALL DOMESTIC**
5 **LOSS.**

6 (a) GENERAL RULE.—Section 904 is amended by re-
7 designating subsections (g), (h), (i), and (j) as subsections
8 (h), (i), (j), and (k), respectively, and by inserting after
9 subsection (f) the following new subsection:

10 “(g) RECHARACTERIZATION OF OVERALL DOMESTIC
11 LOSS.—

12 “(1) GENERAL RULE.—For purposes of this
13 subpart, in the case of any taxpayer who sustains an
14 overall domestic loss for any taxable year beginning
15 after December 31, 1995, that portion of the tax-
16 payer’s taxable income from sources within the Unit-
17 ed States for each succeeding taxable year which is
18 equal to the lesser of—

19 “(A) the amount of such loss (to the extent
20 not used under this paragraph in prior taxable
21 years), or

22 “(B) 50 percent of the taxpayer’s taxable
23 income from sources within the United States
24 for such succeeding taxable year,

1 shall be treated as income from sources without the
2 United States (and not as income from sources with-
3 in the United States).

4 “(2) OVERALL DOMESTIC LOSS DEFINED.—For
5 purposes of this subsection—

6 “(A) IN GENERAL.—The term ‘overall do-
7 mestic loss’ means any domestic loss to the ex-
8 tent such loss offsets taxable income from
9 sources without the United States for the tax-
10 able year or for any preceding taxable year by
11 reason of a carryback. For purposes of the pre-
12 ceding sentence, the term ‘domestic loss’ means
13 the amount by which the gross income for the
14 taxable year from sources within the United
15 States is exceeded by the sum of the deductions
16 properly apportioned or allocated thereto (deter-
17 mined without regard to any carryback from a
18 subsequent taxable year).

19 “(B) TAXPAYER MUST HAVE ELECTED
20 FOREIGN TAX CREDIT FOR YEAR OF LOSS.—
21 The term ‘overall domestic loss’ shall not in-
22 clude any loss for any taxable year unless the
23 taxpayer chose the benefits of this subpart for
24 such taxable year.

1 “(3) CHARACTERIZATION OF SUBSEQUENT IN-
2 COME.—

3 “(A) IN GENERAL.—Any income from
4 sources within the United States that is treated
5 as income from sources without the United
6 States under paragraph (1) shall be allocated
7 among and increase the income categories in
8 proportion to the loss from sources within the
9 United States previously allocated to those in-
10 come categories.

11 “(B) INCOME CATEGORY.—For purposes of
12 this paragraph, the term ‘income category’ has
13 the meaning given to such term by subsection
14 (f)(5)(E)(i).

15 “(4) COORDINATION WITH SUBSECTION (f).—
16 The Secretary shall prescribe such regulations as
17 may be necessary to coordinate the provisions of this
18 subsection with the provisions of subsection (f).”

19 (b) CONFORMING AMENDMENT.—Subparagraph (A)
20 of section 936(a)(2) is amended by striking “section
21 904(f)” and inserting “subsections (f) and (g) of section
22 904”.

23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to losses for taxable years begin-
25 ning after December 31, 1995.

1 **SEC. 12. EXPANSION OF DE MINIMIS RULE UNDER SUB-**
2 **PART F.**

3 (a) IN GENERAL.—Subparagraph (A) of section
4 954(b)(3) (relating to de minimis, etc., rules) is amended
5 to read as follows:

6 “(A) DE MINIMIS RULE.—If the sum of
7 foreign base company income (determined with-
8 out regard to paragraph (5)) and the gross in-
9 surance income for the taxable year is less than
10 10 percent of gross income, no part of the gross
11 income for the taxable year shall be treated as
12 foreign base company income or insurance in-
13 come.”

14 (b) TECHNICAL AMENDMENTS.—

15 (1) Clause (ii) of section 864(d)(5)(A) is
16 amended by striking “5 percent or \$1,000,000” and
17 inserting “10 percent”.

18 (2) Clause (i) of section 881(c)(5)(A) is amend-
19 ed by striking “5 percent or \$1,000,000” and insert-
20 ing “10 percent”.

21 (c) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to taxable years beginning after
23 December 31, 1995.

1 **SEC. 13. ALLOCATION OF RESEARCH AND EXPERIMENTAL**
2 **EXPENDITURES.**

3 (a) GENERAL RULE.—Subparagraph (B) of section
4 864(f)(1) (relating to allocation of research and experi-
5 mental expenditures) is amended by striking “50 percent”
6 each place it appears and inserting “64 percent”.

7 (b) ALLOCATION RULE MADE PERMANENT.—Sub-
8 section (f) of section 864 is amended by striking para-
9 graph (6).

10 (c) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to taxable years beginning after
12 the last taxable year to which section 864(f) of the Inter-
13 nal Revenue Code of 1986 would have applied but for this
14 section.

15 **SEC. 14. INCREASE IN FILING THRESHOLDS FOR RETURNS**
16 **AS TO ORGANIZATION OF FOREIGN COR-**
17 **PORATIONS AND ACQUISITIONS OF STOCK IN**
18 **SUCH CORPORATIONS.**

19 (a) IN GENERAL.—Subsection (a) of section 6046
20 (relating to returns as to organization or reorganization
21 of foreign corporations and as to acquisitions of their
22 stock) is amended to read as follows:

23 “(a) REQUIREMENT OF RETURN.—A return comply-
24 ing with the requirements of subsection (b) shall be made
25 by—

1 “(1) each United States citizen or resident who
2 becomes an officer or director of a foreign corpora-
3 tion, 10 percent or more in value of the stock of
4 which is owned by a United States person (as de-
5 fined in section 7701(a)(30)),

6 “(2) each United States person—

7 “(A) who acquires stock which, when
8 added to any stock owned on the date of such
9 acquisition, has a value equal to 10 percent or
10 more of the value of the stock of a foreign cor-
11 poration, or

12 “(B) who acquires an additional 10 per-
13 cent or more in value of the stock of a foreign
14 corporation,

15 “(3) each person (not described in paragraph
16 (2)) who is treated as a United States shareholder
17 under section 953(c) with respect to a foreign cor-
18 poration, and

19 “(4) each person who becomes a United States
20 person while owning 10 percent or more in value of
21 the stock of a foreign corporation.

22 In the case of a foreign corporation with respect to which
23 any person is treated as a United States shareholder
24 under section 953(c), paragraph (1) shall be treated as

1 including a reference to each United States person who
 2 is an officer or director of such corporation.”

3 (b) EFFECTIVE DATE.—The amendment made by
 4 this section shall take effect on January 1, 1996.

5 **SEC. 15. SUBPART F EARNINGS AND PROFITS DETERMINED**
 6 **UNDER GENERALLY ACCEPTED ACCOUNTING**
 7 **PRINCIPLES.**

8 (a) IN GENERAL.—Subsection (a) of section 964 (re-
 9 lating to miscellaneous provisions) is amended by striking
 10 “rules substantially similar to those applicable to domestic
 11 corporations, under regulations prescribed by the Sec-
 12 retary” and inserting “generally accepted accounting prin-
 13 ciples in the United States”.

14 (b) EFFECTIVE DATE.—The amendment made by
 15 subsection (a) shall apply to distributions during, and the
 16 determination of the inclusion under section 951 of the
 17 Internal Revenue Code of 1986 with respect to, taxable
 18 years of foreign corporations beginning after December
 19 31, 1995.

○

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